



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

THE JOURNAL OF POLITICAL ECONOMY

VOLUME 19

JULY—1911

NUMBER 7

RECIPROCITY WITH CANADA¹

The Canadian reciprocity agreement, providing for free trade in agricultural products of the two countries and a corresponding reduction of duty on all secondary food products and for a considerable reduction in a number of manufactured goods, passed the House of Representatives in April last, was referred by the Senate to its Committee on Finance, and there has been under consideration by the committee for a number of weeks. Witnesses in favor of and against the passage of the bill embodying the agreement have been heard at considerable length, and we now hope that the bill will be brought before the Senate, possibly without recommendation, some time during the coming week.

The agreement had been suggested in the necessary conferences held with the representatives of Canada over the question of the application of the maximum and minimum clause of the Payne tariff bill to Canadian importations into this country; and in the course of the adjustment of that question, in which, by reason of certain Canadian concessions on exports of the United States into Canada, we were able to apply the minimum tariff to Canadian imports, it seemed mutually profitable to extend the consideration of the tariffs of the two countries, already begun, to the point of a complete reciprocity agree-

¹ An address delivered before the Western Economic Society, at Orchestra Hall, Chicago Ill., June 3, 1911.

ment. Commissioners who had expert knowledge of the subject were appointed, and after investigations and study and conferences that covered an entire year, an agreement was finally reached, which has been embodied in the bill which has passed the House, and is pending in the Senate.

The cordial approval throughout the country which the proposed agreement received when it was sent to the Senate, surprised even those who were responsible for its making, and I am confident that further consideration of the treaty since its submission to Congress in January last has only confirmed the popular judgment in favor of its adoption into law.

The treaty is pending in Washington, and the decision must be made in the Senate of the United States. The question naturally arises why I should come out from Washington to Chicago—a matter of a thousand miles—to speak on an issue like this when the persons to be reached are so much nearer my usual place of residence. The bill will pass, if it passes at all, because of the force of public opinion in its favor.

The agreement has been criticized because it was framed as a completed document by the State Department, without consultation with Members of the House or the Senate, and we of the administration have been subjected to many attacks on this ground. The subject-matter of the treaty, however, was of such a character—it covered so many different items—that if conferences had been sought in respect to those items, the individual objections by senators and representatives would have been so many that we could never have reached an agreement at all. One of the great objections to the old method of framing a tariff bill was that in order to secure its passage every district had to be given something in the bill in the way of protection, whether it needed it or not, for the purpose of appeasing the representative of that district and securing his support. This method was obviously calculated to produce a bill drawn not with a view to the protection of those industries that really needed protection, but for many industries that did not need it at all. Hence the proposition has been made, and has received the general approval, that the various schedules of the

tariff should be considered separately, and that the amount of protection to be furnished to a particular product should be determined on its merits with reference to the cost of its production at home and abroad. Now, the Canadian reciprocity agreement in a little different way involves in its consideration the same principle. It calls for approval of it as a unit, without regard to the necessity for tariff revision, if there be such necessity, in respect to other schedules of the tariff not affected or touched by it.

I venture to think that there is much less real opposition to reciprocity than has been represented in Washington for the purpose of influencing votes in both Houses. I am very hopeful that the bill will pass the Senate, and when it does pass and has been agreed upon by the Canadian Parliament its actual operation will be so beneficial to both countries that the arguments against its adoption will be forgotten or will only be remembered as exaggerated instances of perverted imagination. I say this because I have examined the arguments and compared them with the actual statistics, and also because of similar experiences that the American people have had in respect to the adoption of partial reciprocity with Cuba and of complete reciprocity with Porto Rico and the Philippines.

Under reciprocity with Cuba, which reduced the duties on each side 20 per cent, our trade with that country has doubled. Under complete reciprocity or free trade with Porto Rico our trade with that island has increased nearly 15 times; under reciprocal relations with the Philippine Islands our mutual trade has nearly doubled in less than a year; and yet, in the case of each of these changes, there was vehement discussion, bitter opposition, and wild prophecies of disastrous results.

For ten years I engaged in the struggle for Philippine free trade, and for ten years I was regarded as the enemy of the agricultural interests of this country engaged in the raising of beet and cane sugar, and yet, since the adoption of the Payne tariff bill, which extended free trade to the Philippines, I have not heard a single complaint as to the effect of that feature of the Payne tariff bill.

A careful analysis of the arguments pro and con over the Canadian reciprocity agreement will convince any fair-minded economist who is well informed as to conditions in both countries that six months after the agreement is adopted there will be no complaint from any quarter.

From what source does this opposition proceed? In the first place, it comes from two classes of the business interests of the country, those who own and control the lumber supply of the United States, and those who are engaged in the manufacture of print paper, and of whom the largest manufacturers own much of the spruce-wood supply of the United States from which print paper is made. And the second class opposed to the treaty are those who claim to represent the farmers and agricultural interests of the country.

In the consideration of these three classes of opponents to the treaty, I should premise that one of the great objects of the treaty, one of the great reasons for its making and submission to Congress, was the conservation of our natural resources. It is perfectly evident from the statistics that our general lumber supply and our supply of spruce wood for paper making are being rapidly exhausted, and that the effect of the diminution of supply and the increase of demand is to put too high a price upon the rough lumber and wood pulp. Under the Payne tariff bill rough lumber is dutiable at \$1.25. Under the reciprocity agreement that duty is removed. I submit that, as lumber is essential to all classes, farmers and merchants, as the price has gone far beyond what it ever was in the past, and as our supply is being exhausted, we ought, when we can, to enlarge the sources from which our people may secure it at reasonable prices. The report of the Chief of the Bureau of Corporations shows that the control of lumber in the United States is in comparatively few hands, and that they are so friendly to each other that the possibility of a monopoly is neither remote nor improbable, unless we bring to the markets of the United States the relatively inexhaustible supply to be found in Canada.

Second, as to print paper. The Tariff Board has made a most exhaustive examination of the comparative cost of pro-

duction of print paper in the United States and in Canada. Indeed, the report is so complete as to vindicate the judgment of those who proposed the use of a board for the purpose of determining the difference in the cost of articles at home and abroad with a view to assisting the Congress in a rational readjustment of the tariffs. This report shows that the mills best situated in the United States, with the best machinery, can manufacture print paper at a slightly less cost than the mills best situated in Canada; that the Canadian mills, on an average, have newer machinery than the American mills; that there are quite a number of American mills that use old machinery and, therefore, do not conduct their business on economical lines; that the average cost of production in all the mills of the United States, including the poorest mills, is about \$5 more a ton than the cost of production in Canada, with its newer mills, and that this \$5 is just about the difference between the cost of pulp wood in the United States and the cost of pulp wood in Canada. It seems fairly reasonable to suppose, too, that the pulp wood, which only grows north of the forty-fifth degree of latitude, will be exhausted in the United States or remain in the control of a few persons, because of the drain of the American mills.

It is of the highest importance, therefore, not only to the consumers, but to the manufacturers of print paper, in order that they may secure their raw material at a reasonable price, to secure a letting down of the bars in Canada for the exportation of pulp wood. The provinces of Canada have control over the crown lands, in which nine-tenths of the pulp wood is grown, and they have imposed restrictions and export duties of various kinds upon the pulp wood in the crown lands, in order to prevent the export of the wood except in the form of paper. The agreement provides that whenever the Canadian provinces remove all restrictions upon the exportation of pulp wood, then Canada will permit American paper to come in free into Canada, and the United States will permit Canadian paper to come in free into the United States. This exact agreement is not embodied in the bill as recommended to the House by the Ways and Means Committee and as passed by the House.

Instead, in order to induce the Canadian provinces, over whom the Dominion can exercise no control, to lift the restrictions upon the exportation of their pulp wood, it is provided that when paper is made in Canada from wood grown on land not under export restrictions the paper may come into the United States free; and it is hoped that the difference of \$5.75 between the duty on paper from restricted wood and no duty on paper made from unrestricted wood will induce the provinces to lift their restrictions. It seems to me that this is treating the paper manufacturers of the United States fairly. It is a provision calculated to secure to them a source of supply where they can get their wood at \$5 less a ton than in this country, with the disadvantage of a small competition of paper made in Canada from Canadian wood upon which there is no restriction. It is a provision looking far into the future, and which we all hope may create a condition of absolutely free trade in paper and its materials, a condition that some candid and sagacious paper manufacturers will admit is the best thing for the industry, as it certainly is for the consumers.

The third class of opponents to the bill are those who claim vociferously to represent the whole farming industry of the United States. This of course is a much more formidable opposition than the special interests, to which I have referred, and it is but natural that these special interests should be found co-operating with those who claim to represent the farming interest in arousing the farmers to the horrors and disasters that are to follow reciprocity.

The employment of a New York City firm, skilled in sending circulars, is not the subject of proper criticism, provided the statements made in the circulars are reasonable and well founded. The significance of the fact that this same New York firm is looking for financial assistance in the campaign they are carrying on in behalf of farmers against reciprocity, not only to the Grange, but also to gentlemen interested in lumber, in the manufacture of print paper, and in other manufactures, cannot escape the attention of the public.

How is the farmer to be affected by Canadian reciprocity and

free trade in agricultural products? Canada is so far north that her agricultural products are practically limited to wheat, rye, barley, oats, potatoes, live cattle, horses, and dairy products. She cannot and does not raise more than one-sixth of 1 per cent of the corn crop of the United States. She raises no cotton; she raises but few vegetables; she raises but few hogs, because she has not the corn to feed them with; she is at present a great importer of all fruits, citrus and otherwise, from the United States; she imports a large amount of cotton-seed oil, which by the Canadian reciprocity treaty is now made free; she cannot fatten cattle as they are fattened in the United States, and therefore it has become very profitable for American farmers to import young cattle from Canada even with the duty on them and to fatten them for the Chicago market. The United States exports to Canada a great many more horses than she imports from the Canadians. She sends to Canada a much larger amount of potatoes than she receives from her. The United States exports to Canada about 15 times as much of meat and dairy products as Canada exports to the United States.

The only real importation of agricultural products that we may expect from Canada of any considerable amount will consist of wheat, barley, rye, and oats. The world price of these four cereals is fixed abroad, where the surplus from the producing countries is disposed of, and is little affected by the place from which the supply is derived. Canadian wheat nets perhaps 10 cents less a bushel to the producer than wheat grown in the Dakotas or in Minnesota, due to the fact that the cost of exporting that wheat and warehousing it and transporting it to Liverpool is considerably greater than the cost to the Dakota farmer of disposing of his wheat to the millers of Minneapolis or sending it abroad. If, now, the duty is to be taken off of wheat and the Canadian wheat can come to the millers of Minneapolis and other places, it can and will be made into flour, because the capacity of the American mills is 33 per cent greater than is needed to mill the wheat of this country. Canadian wheat can be imported and ground into flour without materially reducing the demand for or price of American wheat, and the

surplus will be sent abroad as flour. The price of Canadian wheat will doubtless be increased a few cents by access to the market nearer at hand, but the access to the market nearer at hand will not reduce the price of wheat to the American farmer, for the reasons stated.

A very material benefit to all the farmers of the country, especially the stock and cattle raisers and the dairy farmers, will be the by-products of bran and shorts from the flour mills likely to follow the free export of wheat from Canada to those mills. These by-products are now so scarce and so high priced that many farmers are unable to procure them.

What is true of wheat is true of the other cereals. The trade between Canada and the United States cannot but increase the sale of agricultural products across the border both ways to nearer markets than they now reach in many instances. The trade will be beneficial to both the seller and the buyer. It will not, in my judgment, reduce the price of wheat or other farming products for our people in any marked way. It will, however, by enlarging the source of supply, prevent undue fluctuations, and it will and ought to prevent an exorbitant increase in the prices of farm products, which, as they have been for the last three or four years, have inured greatly to the profit of all engaged in agriculture.

I have been attacked on the floor of the house and elsewhere as occupying an inconsistent position. It has been said that I have urged the reciprocity agreement with the idea of lowering the cost of living on the one hand, and then have asserted that the farmers would not be injured by reduction in the price at which they sell their products on the other hand. It is asked, Is it possible to reduce the cost of living on the one hand, and maintain the present prices of farm products on the other? My own impression is that the cost of farm products is determined by the world's supply and not by local conditions, of tariff or otherwise, and that as long as the movement toward manufacturing and away from the farms continues and the supply of farm laborers is reduced a continuance of high prices for farm products is inevitable. But I do think that reciprocity will en-

large the reservoir or the supply of farm products for our people, and thus prevent undue enhancement of prices beyond the present standard. If this be the case, then neither the farmer will be injured nor will prices increase. The argument is made, however, that to give free trade to the Canadian farmer in farm products so as to permit him to enjoy the markets of the United States is to give him an advantage over our own farmers, who, living behind a high-tariff wall, have to pay a great deal more for the cost of living than do Canadian farmers whose protective system is not so prohibitive. With respect to this argument, all I have to say is that it is not true. The average cost of living in the United States is not higher than it is in Canada. This is conclusively shown by two facts—**first, that**, in spite of the preference given to English products imported into Canada, the duty being $33\frac{1}{3}$ per cent less than that imposed on goods from other countries, the United States imports into Canada \$225,000,000 of goods of the widest variety of manufactures, all of them entering into the cost of living, while Canada, with the preference in favor of England, imports from England goods to the value of only \$93,000,000. In other words, despite the protective tariff maintained by Canada against the United States, yet Canada, in the matter of articles entering into the cost of living of her people, buys two and one-half times as much from the United States as she does from England.

Again, in our negotiations over this Canadian reciprocity treaty, I directed our commissioners to secure as great a cut in the duties on manufactures in Canada as they could, but they were unable to secure any more than appears in this treaty, for the reason that Canada would not expose her manufacturers to the competition of American manufacturers, which is a very conclusive proof that the manufactured products that enter into the cost of living are higher in Canada than they are in the United States. Otherwise they would not fear the competition of American manufacturers.

But it is said that the farm land in Ohio, Indiana, Illinois, Iowa, Wisconsin, and other states is much more valuable than the land in Manitoba, Saskatchewan, Assiniboia, and Alberta,

the four great northwestern provinces of Canada, and that to give Canadian farmers free entry of products raised on cheaper lands will be certain to lower farm lands in value in this country. Nothing could be farther from the fact. The Canadian lands are farther removed from the Minneapolis and Chicago markets than the lands of Minnesota, Wisconsin, Iowa, or Illinois, and proximity to market is a most important element in the value of farm land. Then the natural change in farming in this country is from the raising of grain and other cereals for export to the raising of grain for farm consumption and development of the secondary products in the form of cattle and hogs. The live cattle are bought and fattened. The hogs are raised and fed. It is farming of this kind that explains the high value of farm lands in Illinois and Iowa and other states. In 1900 the farm-land value in North Dakota was \$11.15 an acre; in South Dakota, \$9.92; in Kansas, \$12.17; in Nebraska, \$16.27. At the same time the value of farm land in Iowa was \$36.35; in Illinois, \$46.17; in Indiana, \$31.61; in Michigan, \$24.12; in Wisconsin, \$26.71; and in Minnesota, \$21.31. If the argument as to the disastrous effect of admitting the crops of the Canadian Northwest to our markets upon the values of our farm land is correct, then the opening of lands in Kansas, Nebraska, and the two Dakotas in the two decades from 1890 to 1910 should have had a similar effect upon the land of the older states. Now, what was the fact? What was the effect upon the farm lands of the older states of the competition of these newer states? The land in the older states became more devoted to corn and cattle and hogs, while the wheat and other cereals were left to the new lands. The effect was that the values of the land in the older farming states were in most cases more than doubled, and the census reports of 1910 show the average farm values by the acre in Illinois to be \$95; in Iowa, \$83; in Indiana, \$62; in Michigan, \$31; in Wisconsin, \$43; and in Minnesota, \$37. The *Yearbook of Canada* shows the average farm values by the acre in the provinces of Manitoba, Saskatchewan, and Alberta to be \$28.94, \$21.54, and \$20.46, respectively, in 1909. The difference in the value of the

acre between Manitoba and Minnesota is but little more than \$8, while the difference between Minnesota and Wisconsin is \$6, between Wisconsin and Illinois is \$52, between Wisconsin and Iowa is \$40, and between Michigan and Indiana is \$31. These figures show incontestably that the fear of a reduction in farmland values of this country by letting in Canada's products is wholly unfounded.

I always feel an impatience, perhaps an unreasonable one, in having to argue the question of schedules with reference to the advantage of the reciprocity agreement with Canada, because it seems to me that the reasons for adopting it are deeper and wider than are to be found in comparison of percentages and rates with respect to special localities and special businesses. The general conditions are these: We have a people numbering 90,000,000, occupying the best part of the North American continent, with the widest variety of products and with an unexcelled fertility of soil. To the north of us are a people just like ourselves, in descent, in wealth per capita, in education, in traditions, in ambitions and aspirations. They have a country nearly equal to ours in area, not so fertile generally, and certainly not so rich in the wide variety of agricultural products. There are 7,000,000 of people. With them we have a trade of \$325,000,000 a year. We export to them \$225,000,000 a year. If we deduct from our exports to Germany, which is nearly nine times as populous as Canada, the value of cotton and the copper that we send there, it will be found that we export more of our manufactures and agricultural products to Canada than we do to Germany and that England is the only foreign customer we have that takes more of our goods than this comparatively small population of Canada. If that be true, and Canada continues to grow, what may we expect to sell her if we reduce the tariff wall, introduce as near as we can free trade, and she increases her population from 7,000,000 to 30,000,000? Shall we not be flying in the face of Providence to maintain a wall between us and such a profitable market as she will furnish us? The conditions between Canada and the United States are the same in point of labor cost, in point of the

cost of living, in point of the general conditions prevailing in both countries. If either country has the advantage the United States has it, and yet for both the opening of the markets of each to the other is certain to introduce a measure of prosperity that we have never seen equaled in the trade between the two countries.

I do not advocate this treaty in view of its benefit to the United States alone, but because I am sure it will be beneficial to Canada also. If I did not think so my earnestness and enthusiasm for the treaty would be much abated, not that I have as much interest in the people of Canada as I have in the people of the United States—for I haven't reached that altruistic point—but because no such agreement can become permanent unless it does result in the common benefit to both countries; and if this were a jug-handled arrangement—if all the benefit were to accrue to the United States and none to Canada—then, as the treaty might be repealed at any time, we could look forward to its very early abrogation by the Canadian authorities. It is because I am confident it will be seen on both sides to be a great statesmanlike measure, one looking to the beneficial interest of both parties to the contract, that I so urgently press its adoption upon the Congress and the people of the United States.

Now, what are the prospects of its passage? It will doubtless be reported out next week, probably without recommendation, because the Committee on Finance in the Senate is so constituted that it is nearly equally divided on the question of the wisdom of the treaty. Amendments will doubtless be proposed, some for the purpose of improving the present bill without violating the terms of the agreement, others with a view to reducing the duties on importations from Canada below the rates agreed upon in the agreement, and others not affecting the agreement at all, but attempting a revision and reduction of duties on certain articles from all countries.

In the first class comes what is known as the Root amendment. Mr. Root proposes an amendment to the bill as it came from the House embodying the exact terms of the reciprocity

agreement with reference to paper and material—that is, a provision that when the restrictions on the exportation of pulp wood from Canada are removed by the provinces, so that pulp wood may come in free into the United States without the payment of any export duty, then there may be free trade between Canada and the United States in print paper. The pending bill provides, as I have already stated, that in order to induce the lifting of the restrictions which are now imposed by the Canadian provinces on wood from crown lands, which include about nine-tenths of the Canadian wood, paper made in Canada from wood upon which there is no restriction in Canada may come in free. It is only fair to say, with reference to the Root amendment, that it is in exact accordance with the agreement. But it does not offer the inducement to the lifting of the Canadian restrictions which the present provision in the bill does. More than this, there are so many in favor of the provision in the bill as it passed the House that I fear that its adoption in the Senate might prove a tactical obstacle to the passage of the bill through both Houses.

The second class of amendments are those by which it is proposed to remove the duty on meat and flour and other commodities passing from Canada into the United States, so that the Canadians may introduce these articles without duty into the United States, while the American producers of the like commodities will have to pay duty to Canada to export them to that country. The serious objection to these amendments is that, as they are gratuitous concessions to Canada, they will necessarily be enlarged by the provision of what is called the favored-nation clause in the treaties with other countries, so that the free trade in them with Canada will result in free trade with all other countries with whom such treaties are made. This is legislating in the dark, and is objectionable on that account. If duties are to be removed, they ought to be removed in a bill which states on its face the whole effect, so that the wisdom, or lack of it, of the provision may be fully considered and weighed before its adoption.

The third class of amendments finds an illustration in the

proposal to put upon the reciprocity bill the so-called "farmers' free list" as an amendment. Without respect to the merit of the farmers' free list, the objection to it as an amendment is that to unite reciprocity and the farmers' free list is to defeat both bills. Those in favor of both, therefore, if they are sincerely in favor of both, ought to be willing to allow the reciprocity agreement to be voted upon as a separate measure and upon its merits, and to rejoice in its passage, even if they may not have accomplished all that they desire in the further revision of the tariff. I am sure that the matter has been so much discussed that the issue will be clearly understood, and that it will be known who are in favor of reciprocity and who are opposed to it, so that those who take part in supporting the bill may have the responsibility, as they ought to have, of what follows the passage of the bill; and those who oppose the bill, either by way of amendments or otherwise, may have the responsibility of defeating the bill and what shall follow its defeat.

The bill is a most important one, and should have the fullest discussion, and I am the last one who would or should complain of time taken by the Senate in the proper consideration of the bill. But when full discussion is had, I earnestly hope that the issue may be on the bill submitted, without irrelevant and prejudicial amendments, to the Senate for its patriotic consideration. If that is done, I sincerely hope that the bill will pass, and that in the course of a year we shall have a demonstration of the principle that trade to be beneficial must be beneficial to both parties; that artificial restrictions that interfere with the advantage of geographical proximity to natural markets and with the closer business association of neighboring peoples of the same race, intelligence, conditions, and traditions are of no advantage to either people.

WILLIAM HOWARD TAFT